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TAXATION AND REVENUE

2 September 1955

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Publication No. L56-12

INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington, D. C.

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DR. KRESS: General Hollis, gentlemen: Our speaker this morning, Dr. Alfred G. Buehler, Professor of Public Finance, in the University of Pennsylvania, has had many years of teaching experience and many years of practical experience. He is much sought after as a consultant on tax matters. The Governor of Pennsylvania, of whatever political faith, in the last five or six years, has kept Dr. Buehler busy in his spare time turning out reports on tax conditions in Pennsylvania. So he knows whereof he speaks, from both a practical standpoint and a theoretical one.

He has helped us both years in this basic review course, and this will be his third appearance on this platform.

Dr. Buehler, it is a pleasure to welcome you back here and to present you to the Class of 1956.

DR. BUEHLER: General Hollis and gentlemen of the College: It is a renewed pleasure for me to be with you today and to consider with you the financing of our governments.

It is, of course, impossible to cover all of the important tax problems before us in the short period of time that we have. With your permission, I may be able to emphasize a few of the highlights and then in the discussion period, if there are particular things that you would like to discuss, we can try to deal with those questions.

You have statistics in tables indicating that the overall American budget problem is one of approximately 100 billions of dollars, and that our tax collections are roughly about 90 billions, if we include the payroll and social security obligations of about 8 billion. Our biggest financial problem is the Federal Budget, and the big part of the Federal Budget, as you gentlemen so well know, is the national defense part of the budget.

Table 1. Expenditures of Federal, State, and Local Governments a/

Selected Fiscal Years 1890-1954

(Millions)

Year	Total	Federal b/	State c/	Local d/
1915............	$ 2,616	$ 746	$ 485	$ 1,385 e/
1919............	21,150	18,448	692	2,010
1923............	8,058	3,137	1,320	3,601
1927............	10,156	2,837	1,859	5,460
1932............	12,751	4,659	2,506	5,586
1937............	16,051	7,756	3,134	5,161
1938............	15,539	6,877	3,409	5,253
1939............	17,712	8,978	3,591	5,143
1940............	17,674	9,205	3,565	4,904
1941............	21,774	13,465	3,542	4,767
1942............	43,805	34,291	4,485	5,029
1944............	104,245	95,378	4,180	4,687
1946............	74,093	60,937	6,202	6,954
1948............	53,925	33,898	9,441	10,586
1950............	67,677	40,824	12,659	14,194
1951............	72,522	45,981	12,512	14,029
1952............	96,209	67,892	13,349	14,968
1953............	107,617	77,529	14,089	15,999
1954............	103,247	71,547	14,700 f/	17,000

a/ Exclusive of debt retirement; grants-in-aid are counted as expenditures of the first disbursing unit. State and local data for 1942-1953 not strictly comparable with earlier years due to changes in reporting.

b/ "Net budget expenditures" plus benefit payments and administrative expenses of the Old-Age and Survivors' Insurance Trust Fund and the Railroad Retirement Account and benefit payments of the Railroad Unemployment Insurance Account.

c/ "Total Expenditure" (excluding debt retirement) less aid received from other governments.

d/ "Total Expenditure" (excluding debt retirement) less aid received from other governments. Data for years other than 1915, 1932, 1952, and 1953 are Tax Foundation estimates.

e/ 1913 amount; 1915 available.

f/ Estimated by Tax Foundation.

Source: Department of Commerce, Treasury Department and Tax Foundation.

I wonder many times what may be done about the tax problem. I think one of the advantages of a course of this nature is that it permits men who are specializing in a particular field to take time to relate their part of the problem to the whole problem.

I find that one of the advantages that comes to me in university work, in a school of business, is that I rub elbows day by day not only with the students in the class room, who are stimulating, but also with business people, with government people, including the military, with accountants, attorneys, teachers, and others. It certainly is a broadening experience for me to realize in working on a particular problem that there is far more to it than one might see as a student reading bulky tomes in a university library.

The problem of financing government can be approached in many different ways. One approach was brought home to me rather forcibly--very forcibly, as I thought about it--by a small boy here in Washington a few months ago. I had come down to a hearing of the Joint Committee on the Economic Report of Congress. They had invited in professors from several of the larger universities for a discussion there with the members of the Joint Committee of budget problems, the health of the economy, and the other questions in which the Joint Committee is interested. As we went out to lunch, we were going through the Senate wing of the Capitol Building, and downstairs in the basement we were waiting for an elevator to take us up to the room that had been reserved for lunch. A little boy was there with his mother, a chap of 6 or 7 years of age. He said to his mother as they got on the elevator, "Mother, isn't it wonderful that we don't have to pay anything to ride on the elevator?"

I have thought many times since how well that illustrates the attitude of many Americans--how lovely it is to enjoy the services of government protection, highways, education, health, and all of these other services, but how unfortunate it seems that any one has to pay for them! If we did not have to levy taxes to meet the costs of government, or if we did not have to charge tolls for highways and other services, the problem of financing governments would be quite different.

It is amazing, in considering the highway problem, to have the fact brought home, as it is so many times, that, when we ride on the New York Thruway, the New Jersey Turnpike, or the Pennsylvania Turnpike, or the others, we may be paying quite willingly the equivalent of a tax of 12 or 15 cents a gallon on gasoline in toll charges for the use of the highway. Nevertheless there is the complicated road question, with its conflicting pressures from interest groups, for "free highways" which motorists could use without paying increased gasoline or other special charges.

The problem of financing governments could be approached from another angle, from the standpoint of economic theory. This was brought home to me just a few weeks ago. I was in an educational conference which was attended by school teachers, principals, and superintendents. We had a full day's discussion of Federal finance and its problems and State and local finance and their problems. Since the group was primarily a Pennsylvania group, the question came up: How should we resolve our financial stalemate? Should we cut the State budget or impose a sales or an income tax?

One of the members of the audience raised this question, "Why not ask the economists of the State to solve this problem?" In other words, economists should decide on the budget, and they should decide on the taxes to be imposed, assuming that university economists are best qualified to formulate our budget and tax policies. Economic theory would thus be our guiding star.

I suppose that eventually, if we put it to a majority vote, we would come up with some solution from the economists. The "proper approach," if technical experts were to solve all our problems of government finance, would be for the school teachers, the principals, and the parent-teacher groups to decide how much to spend on education, I suppose, and for the highway engineers and the technical experts to decide on the highway program, and for the military experts to decide how much would be spent for the Army and the Navy. Actually, the "experts" do have considerable influence. But interest groups may have conflicting views and the citizens cannot altogether be ignored.

Now, another approach is that of the taxpayer, and, as I say, the taxpayer doesn't want to pay taxes. Occasionally you find someone who does. The businessman talks about efficiency and economy in government--the more business in government, the less government in business. He represents a somewhat different approach.

Basically, the tax problem is a spending problem. We would not have a tax if we did not have to spend. The student of governments knows that government spending goes on and on--the general tendency is for the spending to increase. You may have run across the observation of the German economist, Adolph Wagner. He stated what has been called "Wagner's Law," that governments tend to spend more and more on existing services, to perform each service more intensively and extensively, and to undertake new services. Being somewhat of a Socialist and also a student of history, he went on to observe what he thought was a desirable trend, that government spending tended to increase faster than the national income. That was back in 1876.

Can government spending be limited, or is it bound to increase indefinitely? One might assume here the attitude of one of our professors of government. We were talking about spiraling public expenditures one day and he said, "Well, government costs just naturally go up and there is not much that can be done about it. You can try to explain it in terms of a bigger population, higher prices, and inflation, the politicians' desires to appropriate money to win votes, the demands of pressure groups, and inefficiency, but after it is all said, the facts are that the costs of government are always going up."

In other words, it is a hopeless fight. Well, being in the field of education, I hate to admit that social problems calling for action are beyond some remedy. Maybe we cannot solve them; maybe we can only resolve them. Maybe we can meet them only for today. If we can meet them for today, it is some solace, and it may be of help. It does matter how big the budget is and how effectively public monies are spent. When our governments are spending at the rate of 100 billion dollars or more a year, whether those expenditures are simply transfer payments, such as interest on the debt from one group to another, or whether the Government is expanding in such fields as education, health, and social security, the expenditures do represent widespread government action, some government regulation, and some government services. There is the basic question, How may our material resources and our human resources be used to best advantage? That is a question which at least bothers the student of economics, the political scientist, and the others who are concerned about our future as well as our present social and economic problems.

When modern economics, the so-called dismal science, was born in the days of Ricardo, Maltus, and Adam Smith and the rest of the great classical economists, it was realized mankind is confronted by what we have called the law of diminishing returns in production and also with a tendency for the population of the earth to run beyond the means of subsistence.

It is the law of nature that, if we want something, we usually have to go out and work for it. There are limitations on the products of the agents of production, at a given time, so, if we use some of the output of the economy for one thing rather than for another, we may be diverting our energies to the less desirable things, and the good citizen will be bothered about the waste in government. It does not help a democracy to have our resources--financial and economic--wasted by the local, State, or National Government. We have been told many times that the Communists have counted on democracy going bankrupt through uncontrolled spending.

I do not know how serious that threat is. I know it is serious enough that the distinguished attorney and legal scholar, Randolph Paul, in his book on Federal taxation, directed his thinking toward tax education, with the purpose, he said, that a democracy would not lose out in the war to communism if we would learn how to utilize our resources most effectively, and if we would develop a tax and budget system which would contribute to our economic growth and stability. In that way we would distribute the cost of taxation in an equitable manner, without crushing any particular group.

Of course the question is important too, because of the difficulties in obtaining funds for defense, education, highways, or other purposes when the people who have to put up the money, the taxpayers, may feel that the money is being wasted. If waste could be minimized, taxpayers would be more inclined to cooperate in providing needed public services. The government administrator and the legislator would also feel that they were doing a better job in serving the citizens.

For various reasons, then, it is important to center our attention on the budget and on expenditures, because there the tax problem begins. We tax because we spend, and we will never control taxation unless we can control government spending. If time permitted, one could talk at length about the possibilities of improving the efficiency of our governments.

The Tax Problem

The tax question is to many people the most interesting side of the problem. That is the question: Who should "foot the bill?" One method of financing government would be that used by social clubs, dividing up the costs equally. One hundred billions of dollars divided up equally among a population of about 165 million would amount to about $606 per capita, including children, housewives, aged and infirm persons, and all those with low incomes. Equal taxation of all would not work in a democracy. The voters would commonly oppose it.

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Table 2. Federal, State, and local tax revenues, by sources, fiscal year 1953 a/

Tax	Amount (millions of dollars)				Distribution among governments (percentages)			
	All governments	Federal	State	Local b/	All governments	Federal	State	Local b/
Net income								
Individual	30,838	29,784	969	85	100.0	96.6	3.1	0.3
Corporate	22,057	21,239	810	8	100.0	96.3	3.7	c/
Inheritance, estate, and gift	1,106	881	222	3	100.0	79.7	20.1	.3
Tobacco	2,119 d/	1,652	467	e/	100.0	78.0	22.0	e/
Alcoholic beverages	3,268 d/	2,723 f/	545 f/	e/	100.0	83.3	16.7	e/
Gasoline	2,908 d/	891	2,017	e/	100.0	30.6	69.4	e/
Amusements	434 d/	416 g/	18 h/	e/	100.0	95.9	4.1	e/
Other selective excises	5,887	4,825 i/	804	258	100.0	82.0	13.7	4.4
General sales	2,802		2,433	369	100.0		86.8	13.2
Property	8,647		365	8,282	100.0		4.2	95.8
Other	2,353		1,892	461	100.0		80.4	19.6
Total	82,419	62,411	10,542	9,466	100.0	75.7	12.8	11.5

a/ Exclusive of social insurance contributions. Tax collections include penalties and interest but are net of refunds which are substantial in amount in the case of Federal income taxes and State gasoline taxes.

b/ Local tax revenues for fiscal year 1952. Includes collections for Washington, D. C.

c/ Less than .05 percent.

d/ Exclusive of local governments.

e/ Distribution not available; amounts included in "Other selective excises."

f/ Includes, in addition to excises, Federal occupational or special taxes amounting to 21.5 million dollars and State licenses amounting to 79 million dollars.

g/ Includes taxes on admissions to theaters, concerts, cabarets, etc., club dues and initiation fees, bowling alleys, pool tables, and coin-operated devices.

h/ Includes both excises and licenses but does not include amounts collected from admission by the 17 States which tax admissions under the general sales tax.

i/ Includes customs duties which amount to 596 million dollars.

Treasury Department, Analysis Staff, Tax Division, 1954.
Source: Federal: "Review of the 1954 Budget," 27 August 1953; "Treasury Bulletin," December 1953. Data on internal revenue refunds from tabulations to be published in "Annual Report of the Commissioner of Internal Revenue" for fiscal year 1953; data on customs refunds from tabulations to be published in "Annual Report of the Secretary of the Treasury" for fiscal year 1953. State: Bureau of the Census, "State Tax Collections in 1953," 31 August 1953. Local: Bureau of the Census, "Summary of Governmental Finances in 1952," 2 November 1953.

There is a strange thing happening in Pennsylvania, however. We now have hundreds of school districts and local governments which have been imposing per capita or poll taxes.

The popular tax theory is the theory of ability to pay. Ability to pay is a wonderful phrase. It is similar in some respects in its connotations to the phrase "social security." The persons who invented those phrases created some powerful slogans. The phrase "sells" the idea. Everybody ought to contribute according to ability to pay. But what is ability to pay? In tax literature one finds all sorts of interpretations. One person says ability to pay requires a sales tax; another person says it calls for a graduated income tax; another person says it demands heavy taxation of corporations; another says ability to pay cannot be measured and therefore provides no guide for apportioning the costs of government.

In economics one learns of the principle of diminishing marginal utility and marginal indifference. The more money one has at a given time, the less each dollar is supposedly worth to him. We do try to balance off in some way the preferences we have for different commodities and services.

But how is one to relate this to taxation? Many economists support the proposition that ability to pay requires graduated or progressive taxation. Economists arrive at that conclusion on various grounds related to diminishing marginal utility or indifference, to the needs of economy, and to considerations of ethics.

But when you come to the question, At what scale of rates should the taxes be imposed? the answer is quite indefinite. You may have heard of a book written some years ago by Henry C. Simons, who was Professor of Economics at the University of Chicago. Its title was "Personal Income Taxation." He argued that the theories of taxing according to ability to pay were rather indefinite and meaningless. He proposed to substitute the idea that justice in taxation required that taxes be imposed to lessen inequalities in income. This would replace subjective valuations of justice with an objective criterion, that of reducing inequalities in income. Simons explained frankly how he arrived at his conclusion. He did not arrive at it on the basis of economics; he arrived at it on the basis of ethics.

In other words, his proposition started out with a judgment. He had an assumption to begin with, that incomes ought to be distributed more equally. That was ethical--aesthetic judgment, he said. I cite this reasoning process because it illustrates the difficulty. We do not really know precisely at what scale the income tax rates ought to be graduated as an application of ability to pay or tax justice.

Not only many economists but many people at large think, however, that ability to pay calls for higher tax rates on the upper incomes. There is much agreement on that point. How high the tax rates should be graduated is a matter of controversy. If we conclude that ability is rather indefinite in its implications, may we find a more scientific basis of taxation in the benefit principle? This really consists of a group of related ideas that the cost of government should be borne by the beneficiaries. One basis would be that each one of us would pay according to the part of the total cost that each one of us occasions. For example, it may be said you and I should pay through the gasoline tax our share of highway costs. Or we should pay toll charges for beneficial highway services.

For old-age insurance and unemployment insurance, charges could be worked out to place the costs on the beneficiaries. Those unable to pay would receive no benefits. With respect to defense, I would assume one would find the problem of determining what benefits each person receives could not be solved. If someone should ask me what benefits I derive from national defense, I might say they are incalculable--the benefits are invaluable, infinite. That will not help in measuring my part of the cost. There would not be any accounting basis to determine individual benefits, as I see it; and I doubt that there would be for such services as education. It is true that the children in the public schools obtain many benefits and the parents also enjoy various benefits. But some children are in private schools, or have gone into a private university; other young people are out of school.

What benefits do you and I obtain from public education? This suggests another approach to the whole problem. Not long ago a young insurance executive in Philadelphia said to me, "In reading in the papers about some of the bitter discussion in our state over the tax question, I asked myself, 'What does the state do for me? Why should I pay any state taxes?'" He seemed to be sincere about this, although there was a twinkle in his eyes. I was trying to think how I could tell him in a minute or two of all he was getting from the State of Pennsylvania, and he said, "I am a bachelor. I don't have children in school. Why should I pay state or local taxes?" I said, "The state and local governments do something for you, anyway." Again he said, "I am not in school. I don't get anything from the local governments."

I did not argue about the National Government. He has been in the Army; he was in the meteorological service. He should know something about the benefits and costs of national defense.

It is a good question anyway. Just what do you and I obtain from government? Many of those who talk about benefits think of spreading out the cost. I have observed that the people who like the benefit theory like sales and other broad-based taxes. They want those who benefit from government services to be taxed according to those benefits. But, as stated, how much each individual benefits from government services is generally uncertain. Nor is it feasible politically to try to tax according to benefits for many public services. Those without incomes, who are in hospitals, for example, obtain various benefits, and could not be taxed in that way. At any rate, society considers it just to provide numerous services without exacting a toll from each citizen based on the value or cost of those services.

There has been a tendency in modern thinking to emphasize the thought that in taxation we should be guided by our economic and social objectives. If one could state it as a principle, it would be this: that taxation should be consistent with our economic and social objectives. In other words, we should have the kind of tax system which the type of economy we want requires. I believe Adam Smith was conscious of this idea. We think of him as a laissez-faire economist. In general he wanted a tax system which did not interfere, or interfered as little as possible, with private enterprise and a market economy.

Others have argued that taxation should be used directly to regulate employment, consumption, and saving; that there should be incentive taxes. I noticed in Baltimore the other day in one of the periodicals a summary of a speech which was made by the president of a large American corporation. It was a speech back about 1936 in which this corporation president made a plea for incentive taxation. The argument was that, if a corporation hired people and gave them employment--this was still the period of the great depression--the taxes of that corporation ought to be reduced. The reverse of that, as some people have proposed, is that the more people the corporation laid off, the higher the taxes would be. The theory is that if taxes varied inversely with employment, there would be enough pressure and incentive to compel employers to hire workers, and everybody would have a job.

The fiscal-policy theory is that public finance should be used to promote economic objectives, particularly economic stability and growth.

Thus, taxation would be a positive force in regulating economic activity. It would be somewhat selective, being used as an incentive or as a punishment to influence the type, direction, and amount of economic activity. We might, for example, use accelerated depreciation--we have done that to some extent--as a device to encourage investment and employment.

We might look on the capital-gains tax as something of an incentive tax. Those who have gains, of course, would prefer to have no tax at all, and they argue for the privilege of exempting capital gains and not considering them income. Those who want to tax capital gains may regard taxation as a means of regulating speculation.

One could think of many tax proposals and tax gadgets which could be used for fiscal-policy purposes. However, there is this difficulty: Suppose we have to raise 90 or 100 billions of dollars a year in taxes to finance the services provided by American governments. That sum is so tremendous that it is bound to have great material effects on the whole population. We cannot raise 90 or 100 billions of dollars a year without affecting the expenditures and savings of the people. And the question then, is, Who shall pay? and from where shall the funds come?

As one thinks about it, the only sources for paying taxes are these: First of all, you can use your savings, your wealth, and your property. Secondly, you can give up some of the money you would spend. Or thirdly, you can give up some of your current income which would go into saving or spending if the Government did not take it. For most of us, that will mean that taxes have to come out of income eventually, if not immediately.

There is much talk about new sources of revenue and new taxes; but every new tax is just another way to reach savings, income, or expenditures. In looking ahead to tax revision by Congress this coming session, it may be argued that we should take the taxes off consumers' spending. Keynes and other economists have contended that we should seek ways and means to keep money at work. Therefore we might reduce the excises first to help keep consumer spending and production in balance. If we take the taxes off of consumer expenditures, however, we have to leave the taxes on savings unless government budgets can be cut sufficiently. We have to tax investment or consumption. In fact, we have to tax both to support the huge expenses of government. That is our dilemma.

When we have to increase taxes, should we place the new taxes on investment or on consumption? Should we raise the rates of the income tax on the higher brackets and aim our taxes at saving, or should we use sales taxes, or various excises, which are essentially taxes on spending? If we are going to reduce taxes, should we reduce taxes on spending or saving?

Part of the difficulty is that all of these taxes may affect both saving and spending to some extent. We pay an excise tax perhaps out of money which would otherwise be saved. In that event, a sales tax on tobacco or a tax on whiskey is a tax which reduces saving rather than spending. An income tax is not altogether a tax on saving. It frequently takes money which might otherwise be spent.

Historically, taxes have been imposed primarily to raise revenue, not to control the economy. To obtain adequate revenue governments need a diversity of sources: income taxes; excise or sales taxes; property taxes; corporation taxes; and other taxes. Diversity may be carried too far, however, and our tax structures have become something of a hodgepodge. Many taxes are indirect and concealed. Governments have found it easier, because of taxpayer resistance, to raise large revenues from a multitude of taxes than from a few.

For example, corporation taxes are imposed to procure 22 billions of dollars a year by the Federal and State Governments. The theory of some persons seems to be that a corporation is nobody, and nobody pays corporation taxes; therefore, they are excellent taxes. Actually, corporation, excise, property, income, and all taxes fall upon persons in some fashion. The funds taken in taxes have to come out of money that would be saved or money that would be spent by someone. So all taxes do have some effect on the economy.

It is worth emphasizing the modern concept that taxes for revenue and regulation ought to be consistent with our economic and social objectives. Unfortunately, this principle is not wholly attainable. But regulatory taxes should certainly not promote uneconomic objectives, and revenue taxes should interfere as little as possible with the achievement of our economic and social goals. If revenue taxes work some positive good, so much the better.

Now, I see the time is running on. I do not want to omit some reference to the public-debt problem.

The Public-Debt Problem

The last Federal-debt statement showed, as announced by the Treasury, a debt of about 277 billions of dollars. There is some dispute over the question, How big is the Federal debt? because there are Federal obligations not included in that 277 billions. The Tax Foundation published a bulletin not long ago with a heading something like this: "291 Billion Dollars of Contingent Liabilities of the Federal Government." This involved all of the claims against the Federal Government and its agencies. One may think that a Federal debt of 277 billions is enough to worry about. When you have to add 291 billions of other obligations, the debt problem becomes even more serious.

A partial explanation of how the budget got so big, why the debt is so huge, and why taxes are so high is a three lettered word--W-A-R; wars past, present, and the spectre of the future. If we could eliminate from the public debt the budget and our taxes the costs of national defense, we would remove the great part. I do not know precisely just what part--but it might be 80 percent or so. If the cost of government is to come down substantially, we must somehow, as a world, find a way to settle our differences without going to war, or without having to prepare for war.

Continued warring and spending by modern nations, as Adam Smith and some of the early economists warned, may bankrupt the civilized world. As we know, financial and economic insolvency invites dictators and communism.

If we are to reduce the Federal debt, we must somehow or other arrange, or have Providence arrange for us, the result that taxes will exceed expenditures.

As the debt grows bigger, the interest charges also grow bigger. We have a Federal interest cost now of almost seven billions of dollars. Now, one way to look at that is this: If we did not have that seven billions of dollars in the budget for interest, we would not have to raise seven billions in taxes. We could cut taxes seven billions or we could use the seven billions of dollars, which we now use for interest and put it into other things--defense, highways, education, or other services.

The task of trying to raise seven billion dollars in interest is a troublesome one. If we did not have to raise that, we could reduce or abandon the taxes on whiskey, tobacco, gasoline, and other commodities. Or you could have the personal income taxes reduced about 25 percent.

Table 3. Total Federal, State, and Local Debt a/

End of Selected Fiscal Years 1912-1953

(Millions)

Year b/	Total	Federal c/	State	Local					
				Total	County	City d/	Township	School District	Special District
1912....	$ 5,692	$ 1,194	$ 423	$ 4,075	$ 393	$ 3,447	$ 80	$ 119	$ 36
1922....	33,219	22,963	1,163	9,093	1,387	5,810	130	1,127	639
1932....	39,063	19,487	2,896	16,680	2,775	9,909	433	2,170	1,393
1942....	92,112	72,422	3,211	16,479	1,846	9,806	273	1,701	2,853
1944....	218,474	201,003	2,768	14,703	1,694	8,624	202	1,465	2,718
1945....	275,271	258,682	2,425	14,164	1,545	8,411	178	1,363	2,667
1946....	285,344	269,422	2,358	13,564	1,417	8,101	166	1,283	2,597
1947....	275,111	258,286	2,978	13,847	1,481	8,097	178	1,355	2,736
1948....	270,994	252,292	3,722	14,980	1,408	8,859	276	1,560	2,877
1949....	273,645	252,770	4,024	16,851	1,603	9,496	310	2,147	3,295
1950....	281,548	257,357	5,361	18,830	1,707	10,908	339	2,710	3,166
1951....	282,262	255,222	6,373	20,667	1,875	11,721	411	3,257	3,403
1952....	288,728	259,105	7,040	22,583	2,066	12,437	420	3,801	3,860
1953....	299,630	266,071	7,824	25,735	2,454	13,558	434	4,712	4,577

a/ Detail will not necessarily add to totals because of rounding.
b/ Fiscal year endings, prior to 1942; as of June 30, beginning with 1942.
c/ Total public debt; excludes guaranteed obligations incurred by Federal agencies outside of general treasury.
d/ Change in Census classification in 1950; not strictly comparable with earlier years.

Source: Department of Commerce and Tax Foundation.

One wonders here, whether we, the great exponents of capitalism, are finding ourselves in the position that the older European countries have been in, the position of having a debt which we seem to find no way to reduce. We are maintaining the debt and its interest charges, thinking that is the lesser of two evils, the other evil being reducing the debt by sacrificing tax reductions.

Another way to indicate the importance of the problem is to think of the interest rate and its economic effects. The Treasury is now paying two percent on its 91-day bills. During and after the Second World War, interest rates were controlled and the Government was paying 3/8 percent on Treasury bills. There were some financiers and economists who suggested that the day might not be far off when the Government would operate without paying interest at all. It was said that the Government could control the banks and the supply of credits. Some far-reaching economic and social questions are involved in such proposals. Many bankers and economists believe that interest rates should be rather flexible; that they should have some relationship to the health of the economy. When interest rates go up, the budget and taxes are higher. To prevent this, some argue for freezing interest rates at low levels. But inflation may be threatened, and economic policy may call for advancing interest rates and limiting private borrowing. Thus, as the interest payments grow with the debt, it may become very difficult or impossible to reconcile rationally budget and economic policies.

I would like to leave this thought with you if I may, that we have here a problem which is difficult and deep; that it is a problem which apparently cannot be met without education. It is also a problem in ethics. We must learn to place the public good, the general interest, above the desires of any individual; not in the sense that the individual is entirely disregarded but realizing that taxation is a problem of the whole Nation and should be solved on that basis.

If the budget is to be controlled and we are to maintain essential services in a sensible way which will not waste the taxpayers' money, if our tax load is to be distributed equitably in a manner as consistent as possible with our economic and social objectives, and if the public debt is not to become unmanageable, then certainly we must together, as citizens, work out the best possible approach to these challenging problems.

DR. KRESS: Gentlemen, this is your opportunity to air your pet tax peeves and get the expert judgment on them.

QUESTION: Doctor, in a number of countries it is customary for the government to operate or sponsor a national lottery. From the economic point of view, is this a desirable means of obtaining government revenue?

DR. BUEHLER: It is a source of some revenue. I do not know of any country that obtains major revenue from a lottery. Of course it involves ethical and religious issues as well as economic. If you say that production is providing service or a utility, I suppose you could look on horse or dog racing as providing service in the form of entertainment.

So far as betting is concerned, I must say as an economist that I cannot see much production in transferring ten dollars from my pocket to your pocket, or vice versa, through gambling. From the standpoint of the economy it would be preferable to have as a tax base the income and production of the economy. We would obtain far more money from an income, excise, sales, or property tax than from a lottery. At any rate, the practical answer is that lotteries have not been great sources of revenue, although they have supplied some money.

QUESTION: In an attempt to influence the level of economic activity, would you comment on the relative merits of varying rates of taxation as compared with varying the rate of spending and going into deficit spending?

DR. BUEHLER: A spending flow can probably be regulated somewhat more easily than the tax rate. Taxation, as we know it, is a legislative function, and the tax rate ordinarily is not changed unless the legislature votes a change. It might require a year or two to secure desired tax changes. The exception would be an arrangement like the reciprocal tariff measures where the Administration is given authority to change the tax rates within certain limits.

One could attain flexibility if we put into operation the suggestion of Alfred Hansen, the Harvard economist. In essence it would be this: We would set up a board somewhat like the Federal Reserve Board, and this board would have authority to raise the tax rates or to lower them, let us say, from month to month, quarterly, or every six months, as the occasion might seem to demand.

We observe how the discount rates at the Federal Reserve Banks are changed, and this would suggest a similar arrangement for tax rates. Some difficulties would be encountered. Who should be on the board? How are judgments to be made as to the tax rates, and the taxes to be imposed? And there are difficulties from the standpoint of the taxpayer. If one is entering into contracts, trying to do business, looking ahead, investing, and so on, it is going to be unsettling, if you do not know what the tax rates will be. Revenues will also be more uncertain for the Government if the income tax changes monthly or quarterly. Say we would be forced, perhaps, to change the rates once a year, or something of that sort. This is not a very flexible arrangement.

Then, another difficulty with taxation is that it is a blanket or mass instrument of regulation. For example, the law may permit that emergency facilities may be amortized over a five-year period; that depreciation rates may be stepped up under certain conditions. Should every firm be allowed to have the benefits of the provisions, or only those firms which meet other conditions under Government supervision?

There is the difficulty, taxwise, of making the instrument of regulation sufficiently selective so that the application of the tax may be varied, not only in relation to general economic conditions, but to the conditions, say, in the particular market and the conditions of the particular company. Considerable discretion in tax administration would be necessary.

In the administration of public expenditures it seems to be conventional to allow some discretion. We are also apparently more likely to get action from the legislature on spending than we are on taxation.

In the Committee for Economic Development program on the budget and taxation, a stable tax system is proposed. That is, Congress would establish the taxes and the rates for a period of years. When economic conditions improved, the tax system would provide more revenue and we could reduce the debt. If conditions deteriorated, the Government would have less revenue, and it would, if necessary, incur a deficit.

The businessmen and investors would like to have a stable tax structure so they could look ahead and make their plans. It might be that, if tax rates were fixed, except for such emergencies as wars, floods, sudden changes in population, and so on, the chances of keeping the budget within the tax revenue would be better. I mention the Committee for Economic Development fiscal program because it emphasizes stability in the features of taxation rather than revisions from month to month to encourage economic activity.

QUESTION: It appears to me that over the course of years certain practices in taxation have grown up for specialized purposes, whereas other equally deserving things are all thrown into a pot. For instance, I think of a gas tax, which I think is restricted in most instances to the building of a road system by virtue of the fact that it is a direct source of income. Our streets are tended to better, especially, than educational institutions, which seem to be equally deserving, but less popular with the Government. Can you rationalize in that area?

DR. BUEHLER: Well, of course, it does happen that the states frequently do earmark funds for education. I do not know offhand how many states do, but sometimes the sales tax is earmarked for education. In one instance--this is a Canadian instance--I recall the Province of New Brunswick passed a sales tax law and voted to change the name of the sales tax and call it an education tax.

Quite a few of the states have used the income tax or some other tax for education. Why? The earmarking of funds is in a sense a quite ancient idea. It would be suggested in an early society where a person wanted some special service and it was thought that he should pay according to the service he got. For example, if he wanted to use the highways, he had to pay tolls. We do use benefit charges for the use of highways. These are tolls, gasoline, and license taxes. In the Federal Government there is no earmarking of any tax revenue for highways, but we use special revenues for unemployment and old-age insurance. Property assessments may be used for specific local improvements. There are also various licenses and fees where people pay a special charge and obtain a special benefit.

I did not have time previously to talk about financial management and its problems. From the management angle, it becomes exceedingly difficult if a government has numerous special funds. Education is financed with this fund; highways from another fund; and so on. It might happen that the sales tax, let us say, if it is used for education, might provide much more money than the system really needs. There could be waste there. Or it may happen that the present sources are inadequate.

We got into this highway earmarking in the states because of the pressures from the petroleum industry, the automobile industry, and the motorists. They said: "This is sacred money. You are taking it from the motorists, and therefore it must be spent on the highways." But how much of the whiskey tax is dedicated to the health and the old-age benefits of those who pay the tax? How much do the smokers of cigarettes, who are developing cancers in their lungs, get out of the tax? When you pay the property tax on your home, do you have any assurance that that money is sacred and that it will be used for you?

From the overall standpoint of the fiscal manager, it would be better if the taxes went into the general fund and that we financed education, highways, and the other services out of the general fund. If the gasoline tax were a prolific source of revenue which provided more money than we needed for the highways, what harm would there be in putting that money in health, education, and other places, as we do the taxes on whiskey, tobacco, and other things?

In the report of the Federal Commission on Intergovernmental Relations, which came out a few weeks ago, the Commission recommended that the Federal requirements as to earmarking of state gasoline taxes be withdrawn, and that the Federal Government not make earmarking a condition for getting highway funds.

QUESTION: Business makes the allegation--I presume it is true--that you can tax the incentive out of business or business expansion. Has there been much study on that problem as to whether that point is right, that business loses incentive as the result of high taxes?

DR. BUEHLER: There has been a lot of study and a lot of discussion. I think an honest and frank answer would be that we do not know where the point is. The Harvard Business School people have had a series of studies, and you perhaps have seen them. They have had hundreds of interviews with business executives and investors, and have tried to pin down the question: What are the effects of taxation on incentives and behavior? They concluded that taxes are somewhat restrictive, but not so restrictive in general as many taxpayers complain.

Other studies have shown different results. Dr. Lewis Kimmel of the Brookings Institution sent out a questionnaire to corporation executives several years ago. The replies he got from the corporation executives do not fully coincide with the results of the Harvard study. So you get different answers. I think that is to be expected, because the problem is one that involves many variables. You have questions like these: For what is the money used? Is it going for financing war or other emergencies? Is the Government popular with the taxpayers? Other questions are: Are the taxes new taxes? Have they suddenly increased? We get accustomed to the old taxes, so some tax authorities have said that an old tax is better than a new tax, like an old shoe is more comfortable than a new one.

For example, today we know that our taxes will long continue to be heavy. So I think the college graduate today, as compared with his grandfather, is going into business, the profession, government, or other service, in a period when taxes are high, and he probably knows very well they are going to stay high. He expects that. He accepts it. His reaction to thoses taxes will probably be different from the reactions of his father or of his grandfather. They will probably say that today's high taxes are confiscatory. They can remember days when there was no income tax.

You may be familiar with the writings of Professor Bullock of Harvard. He was professor of economics there forty or fifty years ago. In some of Bullock's writings about the income tax when the amendment was being added to the Federal Constitution, he was suggesting that tax rates of say ten or fifteen percent were confiscatory. If you talk to a businessman today, or to an investor, about a ten-percent tax rate being confiscatory, he would say, "I would like to go back to that rate." It depends on the age of the person and his plans for retirement. Some people say taxes have forced them into retirement; but maybe they were ready to retire anyway.

Then you have the opposite effect. High taxes make some people work harder because they have less money left after taxes, so they have to work more in order to produce more.

Then there is the further question, Where does the money go? When one thinks about the big government budgets, he must confess there probably is something in the argument that President Truman and his Secretary of the Treasury, Mr. Snyder, made: "Sure, taxes are high; but the economy is high, too. Profits of the corporations are high; investors are doing well." How can you argue under those conditions that the high taxation is hurting the economy?

It is a difficult thing to prove. The business community draws benefits from the Government on contracts. Our economy in recent years has also been a very prosperous one. Some persons say that a 50 percent tax is damaging to economic incentives. Probably the same rate of tax affects the behavior of different people somewhat differently.

One could say, "What if the tax rate were 100 percent?" There is certainly a point where the effect is going to be evident. A similar question of economic effects is confronted in the problem of inflation. Just when does inflation become dangerous? We know there is danger, but it is pretty hard to say exactly where the danger point is.

QUESTION: Doctor, one of the wealthier economists--I think it was Dacoe--wrote that there is a lot to be said for being in the same boat. He was a lecturer, too. He was suggesting that the inequity in incomes, quite aside from economics, should be corrected from a moral and ethical point of view. It seems that suggestion has enormous popularity. I was wondering if the political appeal of that idea didn't have something to do with the progressive taxation development--the actual need for the revenue. You tax those with incomes of over 100 thousand dollars a year heavily.

DR. BUEHLER: I think probably it would be difficult to prove that one way or another. But, to go back, say, into the 1890's when there was a lot of income-tax agitation, and later, we see that by and large the reason for the income tax is that it does produce revenue. Government can raise more revenue by stepping the rates up as incomes increase. We could hardly tax low incomes at 91 percent as we do incomes over 300 thousand dollars. We can, however, impose higher tax rates on the low incomes than otherwise if we place rather high rates on the wealthy.

I do not want to minimize the importance of the statement that some people have looked on the income tax as an equalizing measure. It has been called a Communist device. It is not, however, necessarily a Communist or socialized type of taxation. That depends on how it is used. Consider, for example, public education--the Socialists and Communists have advocated that, too. Does that mean because we have public schools that we are Communists? I think the danger is in going too far and raising the rates up to confiscatory levels.

Sometimes I think that the corporation people and the wealthy people are not too helpful about that either. One reads in the newspapers about the escapades of the idle rich. One may wonder whether it would not be a good thing to subject them to still higher tax rates. When corporation executives talk about how easy it is to pass along the 52 percent taxes that corporations now pay, one may ask, "Why not have a 100 percent corporate income tax?"

DR. KRESS: Dr. Buehler, our time has run out. There are still some questions, but we will have to go without the answers to them. I have been told, although it is pretty well guarded still, that three weeks from now in our unit on Economic Stabilization we are going to bring in your explanation on rationalizing taxation.

On behalf of the Commandant, the faculty, and the student body, sir, thank you for a very interesting discussion.

DR. BUEHLER: It is a pleasure to be here.

(18 Oct 55--450)O/sgh